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ILLINOIS COMMERCE COMMISSION
CHIEF CLERK'S OFFICE

SUNDALE UTILITIES, INC.

Ill. C.C. No. 1
9th Revised Sheet No. 1
Canceling 8th Revised Sheet No. 1

Applies to Washington Estates, Hillcrest and Parkview Subdivision in and/or near
Washington, Illinois.

WATER SERVICE

Metered
Rates for Water Service

<u>Monthly Usage</u>	<u>Rates</u>
Service Charge	\$6.00/month
Usage Charge	\$2.59/1000 gallons

Special Terms and Conditions

All bills for water service not paid within twenty-one (21) days from date of issue (monthly billing date) will be subject after the twenty-first day to a penalty of 1-1/2% per month. A \$15.00 fee will be charged for all non-sufficient funds checks received. For accounts that are in arrears and have had their water service shut off, a \$25.00 fee will be charged to reinstall service when past-due bills have been paid. Additional fees include \$2.00 for meter test and \$10.00 hook-up for building/construction.

Issued: August 12, 2008 Effective: September 26, 2008

Issued by Olen W. Spurgeon, President
2465 Washington Rd Ste B
Washington, IL 61571

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ILLINOIS COMMERCE COMMISSION
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SUNDALE UTILITIES, INC.

Ill. C.C. No. 1
10th Revised Sheet No. 1
Canceling 9th Revised Sheet No. 1

Applies to Washington Estates, Hillcrest and Parkview Subdivision in and/or near
Washington, Illinois.

SEWER SERVICE

Rates for Sewer Service

<u>Monthly Usage</u>	<u>Rates</u>
Service Charge	\$4.00/month
Usage Rate	\$3.11/1000 gallons

Special Terms and Conditions

All bills for sewer service not paid within twenty-one (21) days from date of issue (monthly billing date) will be subject after the twenty-first day to a penalty of 1-1/2% per month. A \$15.00 fee will be charged for all non-sufficient funds checks received.

Issued: August 12, 2008

Effective: September 26, 2008

Issued by Olen W. Spurgeon, President
2465 Washington Rd Ste B
Washington, IL 61571

III. C.C. No. 1, 9th
Schedule 1A

Sundale Utilities, Inc. f/k/a Washington Estates, Inc.
COMPARISON OF RATES AND REVENUES

WATER

Operating
Revenue

Present - operations level

508 x \$5.77 x 12	\$35,174
30,385,000 x .00241	73,228
Adjustment	<u>(8,196)</u>
Total Revenue	<u><u>\$100,206</u></u>

Proposed - requested operations increase

508 x \$6.00 x 12	\$36,576
30,385,000 x .00259183	<u>78,753</u>
Total Revenue	<u><u>\$115,329</u></u>

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III. C.C. No. 1, 10th
Schedule 1B

Sundale Utilities, Inc. f/k/a Washington Estates, Inc.
COMPARISON OF RATES AND REVENUES

SEWER

Operating
Revenue

Present - operations level

508 x \$3.24 x 12	\$19,751
34,327,000 x .00251	86,161
Adjustment	<u>4,373</u>
Total Revenue	<u><u>\$110,285</u></u>

Proposed - requested operations increase

508 x \$4.00 x 12	\$24,384
34,327,000 x .00310578	<u>106,612</u>
Total Revenue	<u><u>\$130,996</u></u>

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III. C.C. No. 1, 9th & 10th
Schedule 2

Sundale Utilities, Inc. f/k/a Washington Estates, Inc.
CASH FLOW REQUIREMENTS
Proforma

	Proforma @ Present Rates	Proforma @ Proposed Rates
<u>Sewer</u>		
Operating Income per schedule 5B	(\$14,635)	\$6,076
Plus: Depreciation	7,780	7,780
Less: Debt service - principal	(12,117)	(3,083) *
Less: Interest expense	(5,600)	(5,600)
Cash Flow	(\$24,572)	\$5,173

Water

Operating Income per schedule 5A	(\$1,076)	\$14,047
Plus: Depreciation	10,397	10,397
Less: Debt service - principal	(12,117)	(3,083) *
Less: Interest expense	(5,600)	(5,600)
Cash Flow	(\$8,396)	\$15,761

* Note: In 2008, terms of bank loan change effective 4/1/08 so principal requirements are different in proforma scenario.

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III. C.C. No. 1, 9th & 10th
Schedule 3

Sundale Utilities, Inc. f/k/a Washington Estates, Inc.
RATE BASE CALCULATIONS

	<u>Water</u>	<u>Sewer</u>
Utility plant in service	\$512,009	\$317,793
Retained earnings -depr used	(27,803)	(27,803)
Accumulated depreciation	<u>(291,867)</u>	<u>(198,332)</u>
Net plant in service	192,339	91,658
Plus: Working capital	8,000	8,000
Less: Contribution in aid of construction	<u>(55,230)</u>	<u>(36,888)</u>
Original cost rate base	145,109	62,770
Rate of return	<u>9.68%</u>	<u>9.68%</u>
Net Operating Income Projection	<u><u>\$14,047</u></u>	<u><u>\$6,076</u></u>

<u>Rate of Return</u>		<u>Cost</u>	<u>Weighted Cost</u>
Long term debt*	61%	5.90%	3.60%
Common equity**	39%	15.60%	6.08%
			<u><u>9.68%</u></u>

*cost = interest expense/actual debt

**cost = 20-yr US Treas rate 4.5 + Ibbotson
equity risk premium 7.1 + 4.0 for small
size of subject company

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Ill. C.C. No. 1, 9th & 10th
Schedule 4

Sundale Utilities, Inc. f/k/a Washington Estates, Inc.
BALANCE SHEET
December 31, 2007

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ASSETS

<u>Plant in Service</u>		
Water - cost	\$512,009	
Sewer - cost	317,793	
Total		\$829,802
Accum depr - water	(291,867)	
Accum depr - sewer	(198,332)	
Total		(490,199)
Net Plant		339,603
<u>Current Assets</u>		
Cash	6,157	
Accounts receivable - customers	14,689	
Prepays	3,436	
Total Current		24,282
<u>Other Assets</u>		
Rate case costs - net		2,350
Total Assets		\$366,235

LIABILITIES AND STOCKHOLDER'S EQUITY

<u>Stockholder's Equity</u>		
Common stock	\$20,000	
Retained Earnings	55,606	
Net stockholder's equity		\$75,606
<u>Current Liabilities</u>		
Notes payable - bank	153,607	
Notes payable - stockholder	35,371	
Customer deposits	2,275	
Payables	7,258	
Total Current		198,511
<u>Contributions in Aid of Construction-net</u>		92,118
Total Liabilities and Stockholder's Equity		\$366,235

III. C.C. No. 1, 9th & 10th
Schedule 5A

Sundale Utilities, Inc. f/k/a Washington Estates, Inc.
STATEMENT OF INCOME AND EXPENSES
December 31, 2007

<u>WATER</u>	12/31/07 <u>Actual</u>	<u>Proposed</u>
Operating revenue	<u>\$100,206</u>	<u>\$115,329</u>
Operating expense	(86,706)	(86,706)
Depreciation expense	(10,397)	(10,397)
Taxes other than income	<u>(4,179)</u>	<u>(4,179)</u>
Total operating expenses	<u>(101,282)</u>	<u>(101,282)</u>
Net Operating Income	(1,076)	<u><u>\$14,047</u></u>
Other Income (Expense):		
Interest expense	<u>(5,600)</u>	
Net Income	<u><u>(\$6,676)</u></u>	

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III. C.C. No. 1, 9th & 10th
Schedule 5B

Sundale Utilities, Inc. f/k/a Washington Estates, Inc.
STATEMENT OF INCOME AND EXPENSES
December 31, 2007

<u>SEWER</u>	12/31/07 <u>Actual</u>	<u>Proposed</u>
Operating revenue	<u>\$110,285</u>	<u>\$130,996</u>
Operating expense	(112,961)	(112,961)
Depreciation expense	(7,780)	(7,780)
Taxes other than income	<u>(4,179)</u>	<u>(4,179)</u>
Total operating expenses	<u>(124,920)</u>	<u>(124,920)</u>
Net Operating Income	(14,635)	<u><u>\$6,076</u></u>
Other Income (Expense):		
Interest expense	<u>(5,600)</u>	
Net Income	<u><u>(\$20,235)</u></u>	

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Ill. C.C. No. 1, 9th & 10th
Schedule 6

Sundale Utilities, Inc.

MISCELLANEOUS INFORMATION

Owner: Olen W. Spurgeon

Business Mailing Address: 133 N. Parkway Drive
Pekin, IL 61554

Business Street Address: 2465 Washington Rd Ste B
Washington, IL 61571

Business Telephone Number: (309) 694-1061

Corporate Officers:

President	Olen W Spurgeon
Vice President	Bradley Spurgeon
Secretary	Stephen P Gasser
Treasurer	Stephen P Gasser

Incorporation: Illinois, 1956

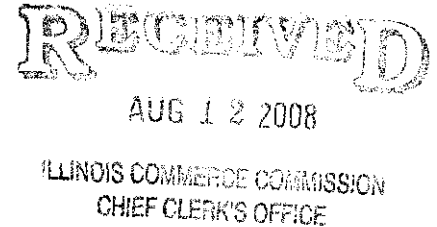
Service Began: 1956

General Manager:
Engineering: Olen W. Spurgeon
160 N. Wilmore
Washington, IL 61571 (309) 444-9811

Complaints or Billing: Julie Blanch
2465 Washington Rd Ste B
Washington, IL 61571 (309) 694-1061

Emergency Service: Christopher Gasser
2465 Washington Rd Ste B
Washington, IL 61571 (309) 694-1061

Accounting: Christine A Schwartz
133 N Parkway Drive
Pekin, IL 61554 (309) 346-4106



**Direct Testimony
Olen W. Spurgeon
Owner
Sundale Utilities, Inc.**

1 **Q Can you state your name and business address for the record?**

2 A My name is Olen Spurgeon. My business address is 160 N. Wilmor Road,
3 Washington, IL 61571.

4 **Q What is your occupation?**

5 A I am the owner of Sundale Utilities, Inc.

6 **Q Please summarize your professional background.**

7 A I received a BSCE from Bradley University in 1955 and have been the owner of
8 Spurgeon Construction, Inc. since 1973. I have been active in the management
9 of the utility companies since 1980. I am also a state certified potable water
10 operator and have been for at least twenty years.

11 **Q What is the purpose of your testimony?**

12 A My testimony will discuss the effect of the proposed increase on the average
13 customer, the reasons Sundale Utilities, Inc. is filing for an increase in rates,
14 and the cost of capital to Sundale Utilities, Inc.

15 **Q What are the present water rates for Washington Estates, Inc. and when
16 did they become effective?**

17 A The present water rates for Washington Estates, Inc. became effective on
18 August 19, 2005 and are as follows:
19 Monthly service \$5.77 per month
20 Usage Charge \$2.41 per 1,000 gallons
21 The current average monthly bill is approximately \$17.78 per month based on an
22 average consumption of 4,984 gallons per month.

23 **Q What are the proposed rates and their impact on the average customer?**

24 A The proposed rates are as follows:
25 Monthly service \$6.00 per month
26 Usage Charge \$2.58 per 1,000 gallons
27 The average monthly bill under the proposed rate would be approximately
28 \$18.86 per month, or an increase of \$1.08 per month based on the average
29 monthly consumption of 4,984 gallons.

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30 **Q What are the present sewer rates for Washington Estates, Inc. and when**
31 **did they become effective?**

32 A The present sewer rates became effective on August 19, 2005 and are as follows:

33 Monthly service charge \$3.24 per month
34 Usage Rate \$2.51 per 1,000 gallons

35 The current average monthly bill is approximately \$17.37 per month based on the
36 average current monthly consumption of 5,631 gallons.

37 **Q What are the proposed sewer rates and their impact on the average customer?**

38 A The proposed rates are as follows:

39 Monthly service charge \$4.00 per month
40 Usage Rate \$3.11 per 1,000 gallons

41 The average monthly bill under the proposed rates would be approximately
42 \$21.51 per month, or an increase of \$4.14 per month based on the average
43 monthly consumption of 5,631 gallons.

44 **Q Why is Washington Estates, Inc. requesting rate relief at this time?**

45 A For the twelve month period ending December 31, 2007 the company incurred
46 a net operating loss of \$26,911. Rate relief is necessary in order for Washington
47 Estates to recover reasonable and prudent expenditures and to allow the opportunity
48 to earn a fair return on its investment. The proposed rates will allow the Company
49 to earn a 9.68% overall rate of return. This is essential for the utility to maintain
50 a high level of service and to attract needed capital at a reasonable rate.

51 **Q Will you please discuss the factors that have led to the request for rate relief?**

52 A Currently, only one of the three officers is receiving compensation due to cash
53 flow constrictions. Since our last rate case in base year December 31, 2003, gas and
54 oil costs have risen approximately 37% and our utilities expense has increased 73%.
55 Also, treatment & testing supplies have increased approximately 41% during the same time
56 period, which is imperative to providing safe, quality water and sewer services.

57 **Q Please describe the schedules attached to your testimony.**

58 A Schedule 2 is a proforma of the cash flow requirements, both present and proposed.
59 Schedule 3 shows the rate base calculations and the rate of return.
60 Schedule 4 is a balance sheet of Washington Estates, Inc. at December 31, 2007
61 as reflected on the Company's books.
62 Schedules 5A & 5B is actual and proforma income and expense figures including
63 the effect of the proposed rates. Revenues have been computed using customers
64 at December 31, 2007.

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65 **Q What is the cost of capital to Washington Estates, Inc.?**

66 A The cost of capital to Washington Estates, Inc. is 9.68% as shown on Schedule 3.

67 **Q How did you determine the cost of capital to Washington Estates, Inc.?**

68 A I used a hypothetical capital structure of 61% long term debt and 39% common
69 equity. Since Sundale Utilities, Inc. currently contains negative equity, the use of
70 the Company's actual capital structure would not be appropriate for ratemaking
71 purposes. I also used the embedded cost of debt of Washington Estates, Inc.
72 which is 5.9%.

73 Operating risk for the utilities poses a significant risk due to continually changing
74 EPA requirements. Also an operating risk is the uncertainty regarding the
75 intrusion of contaminants into existing ground water sources.

76 Financial risk is the ability to earn a return commensurate with an investor's
77 expectations. Risk is higher with an investment in these utility companies
78 because of the small area served and the lack of diversity in the business.

79 **Q How did you determine the cost of equity for Washington Estates, Inc.?**

80 A I used the 20 year treasury bond rate currently yielding 4.5% as a risk free rate
81 of investment. It would be reasonable to add a premium of 7.1% to the cost of
82 20 year treasury bonds to determine the cost of equity to large companies. This
83 premium is based on the long horizon equity risk premium as published in the
84 "Stocks, Bonds, Bills and Inflation: 2007 Yearbook Valuation Edition" by Ibbotson
85 Associates. The premium does not provide for the lack of liquidity and higher risk
86 of investment in a small company like Sundale Utilities. A small company like Sundale
87 Utilities has to provide a greater return to attract investors who otherwise could
88 invest their money into government bonds, utility bonds, or large publicly traded
89 securities paying dividends and having liquidity. Naturally, any of these types of
90 investments would be favored by the market over investing in a small company with
91 non-traded securities unless they were to receive a greater return on their investment
92 to compensate them for the greater risk of investment. To allow for the small size
93 of Sundale Utilities, I have added a 4.0% premium for their small size. I believe that
94 15.6% is the minimum cost of equity and that an overall return of 9.68% is reasonable.

95 **Q Why is Washington Estates, Inc. filing under the Standard Rate Case**
96 **Procedures instead of the Short Form Procedures that are in place for a**
97 **company the size of Sundale Utilities, Inc.?**

98 A We are filing under the standard rate case procedures because once the two companies
99 Sundale Sewer and Washington Estates were merged into one surviving corporation,
100 the combined revenues exceed the upper limit allowable for a short rate case filing.

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101 **Q What is the relationship between Washington Estates, Inc., Sundale Sewer, Inc.,**
102 **and Sundale Utilities, Inc.?**

103 **A** Washington Estates, Inc. and Sundale Sewer, Inc. were merged into one surviving corporation
104 named Sundale Utilities, Inc. in May, 1999. Washington Estates and Sundale Sewer no longer
105 legally exist. However, we maintain the books for the three separate lines of business, per
106 instructions from the ICC, that existed before the merger: the water service of Washington
107 Estates, the sewer service of Washington Estates, and the sewer service of Sundale Sewer.

108 **Q Does this conclude your testimony?**

109 **A** Yes it does.

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